BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 90-9-G - ORDER NO. 90-464

JUNE 27, 1990

IN RE:	Annual Review of the Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Electric & Gas Company	ORDER

On April 11, 1990, the Commission held its annual hearing on the gas purchasing policies and purchased gas adjustment of South Carolina Electric & Gas Company (SCE&G). Normally, semiannual hearings are held to review the purchased gas adjustment, but the purchased gas adjustment hearing scheduled for October 1989 was continued until April 11, 1990.

Robert T. Bockman, Esquire, represented SCE&G; Carl F. McIntosh, Esquire, represented the Intervenor, Consumer Advocate of South Carolina (the Consumer Advocate); and Sarena D. Burch, Staff Counsel, represented the Commission Staff.

SCE&G offered the testimony of Warren A. Darby and Carey S. Morris, and the Commission Staff offered the testimony of Brent L. Sires.

Based on the evidence in the record, the Commission makes the following findings and conclusions:

1. SCE&G testified that its forecasted cost of gas was based on the latest historic actual period of the twelve months ending January 1990. During this historical actual period, adjustments were made for known and measurable changes, such as an interim rate reduction from SCE&G's intrastate supplier and tariff changes from interstate suppliers to its intrastate supplier that are in effect or expected to be in effect during the forecasted period. Certain take-or-pay charges from SCE&G's supplier were also included in its forecast. The Company also made other normalizing adjustments to the historic period in developing the forecasted price of natural gas to its customers.

Based on this testimony and the testimony of Staff witness Sires, the Commission finds that (a) by applying the forecasted monthly cost of gas to its projected firm sales, an average annual rate of 42.985 cents per therm has been developed and will be incorporated in SCE&G's firm base tariff rates through October 1990; (b) the currently approved cost of gas in the rate tariffs is 43.361 cents per therm. The new rate of 42.985 cents per therm causes a decrease to the Company's firm rate tariffs of .376 cents per therm; and (c) the projected results of applying SCE&G's recommended fixed gas rate indicate the Company's experiencing an under-collection of its gas cost as of October 1990 in the amount of $1,757,014.80. This will be applied as a true-up provision to its forecasted gas costs prior to the November 1990 billings.

2. Although certain portions of Order No. 89-520, issued in Docket No. 89-599-G have been stayed pending appeal, the Commission finds that the Company's continued collection and payment of take or pay charges to Pipeline as a cost of gas is reasonable because of SCE&G's testimony that the take or pay cost responsibility of approximately 15 million dollars established for SCE&G in Docket No. 89-599-G, which SCE&G has included in its cost of gas calculation, represented the minimum responsibility which SCE&G would incur in the ultimate resolution of the issues in that proceeding. As a consequence of SCE&G's practice, the Commission finds that collection and payment of the present level of its take or pay responsibility will serve to continue to permit SCE&G to recover its actual cost of gas without incurring an additional cost of interest if Order No. 89-520 is ultimately affirmed. In the event that the Order is modified, the Commission finds that the continued collection and payment of those costs will serve to reduce SCE&G's ultimate responsibility and prevent rate shock to its customers.

3. Staff witness Sires testified that the present approved gas cost collection procedure provides for the billing of customers based on the cost of gas plus a fixed mark-up which has been approved by this Commission. This approved procedure provides for a fixed base cost of gas component for a six month period to prevent fluctuations in the gas cost. The Commission finds that this procedure allows the Company to collect only gas related

costs. Based on the above findings, the Commission concludes that the purchased gas adjustment of the Company is operating properly.

4. The Commission finds, based upon SCE&G's testimony, that SCE&G has a contract with South Carolina Pipeline Corporation (Pipeline) to provide all of its natural gas requirements with a maximum contract demand of $184,000 mcf per day.

5. SCE&G testified that it purchases all of its gas requirements from Pipeline because SCE&G does not own or operate a pipeline system connecting its various delivery points. Pipeline has years of experience and expertise in pipeline operations. The Commission finds that because of its lack of its own system and its lack of experience and expertise in pipeline operations, it is impracticable and inefficient for SCE&G to begin purchasing gas and developing an administrative staff to ensure an adequate supply to each of its purchase points. In addition, Pipeline has a gas supply department staffed with professionals who have many years of experience in gas purchasing. Since Pipeline purchases gas for most of South Carolina's natural gas requirements, of which SCE&G represents approximately 40%, the Commission finds that Pipeline is in a much stronger position than SCE&G in the market place at the present time.

6. The Commission finds, based on the testimony of Staff witness Sires, that the Company receives adequate supplies of firm gas to meet its captive customers' needs. The Company is meeting its responsibility of maintaining adequate supplies at reasonable costs to serve its customers. Based upon the above findings, the

Commission concludes that SCE&G's gas purchasing policies are reasonable and should be continued.

7. SCE&G witness Darby testified that the Company's previously approved Industrial Sales Program Rider ("the ISPR Program" or "the Program") was originally approved to enable participating gas utilities to obtain gas supplies to meet the needs of that portion of their customers which have alternate fuels available at prices highly competitive with the price of natural gas. See, Order No. 83-222, issued in Docket No. 83-129-G, on April 7, 1983, and TR. at 10. The Program has been approved in previous Commission Dockets. See, Order No. 89-1074 in Docket No. 89-245-G; Order No. 89-445 in Docket No. 88-695-G; and Order No. 88-578 in Docket No. 87-426-G.

However, the Commission is fully aware of challenges to the ISPR Program in prior proceedings concerning SCE&G, South Carolina Pipeline Corporation (Pipeline), and Peoples Natural Gas Company (Peoples) and of the necessity to evaluate carefully the continuation of the Program. Therefore, the Commission finds that the continued approval of the operation of the ISPR Program will be contingent upon SCE&G's presenting sufficient evidence to demonstrate that the allocation of gas under the Program continues to provide benefits to the Company's firm and interruptible customers.

The Commission has previously scheduled a rehearing on October 4, 1990, concerning Pipeline's industrial sales programs in Docket No. 90-1-G. Due to the reasons set forth above, and the fact that SCE&G's participation in the ISPR Program is a direct function of the operation of certain tariff provisions approved for Pipeline, the Commission finds that the hearing previously scheduled concerning Pipeline's industrial sales program should be expanded to include a further review of SCE&G's and Peoples' programs as well. Therefore, approval of the ISPR Program of SCE&G will be held in abeyance and a determination will be made based upon the evidence presented in the upcoming hearing. Parties will be given notice of the date of the hearing as well as dates for prefiling testimony and exhibits. The new docket number for the upcoming hearing is Docket No. 90-452-G.

IT IS THEREFORE ORDERED:

1. That the gas purchasing policies and purchased gas adjustment of South Carolina Electric & Gas Company are hereby approved.

2. That a final decision as to whether the ISPR Program of SCE&G should be continued will be held in abeyance until after the upcoming hearing involving Pipeline, SCE&G and Peoples. In the meantime, the status quo shall be preserved.

2. That the gas cost of 42.985 cents shall be effective for bills rendered on and after May 1, 1990.

3. That new tariff sheets and rate schedules should be filed reflecting the findings herein within ten (10) days of the date of this Order.

4. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Marjorie Amos-Frazier
Chairman

ATTEST:

Deputy Executive Director

(SEAL)